

Compilation of Articles For Prevailing Wage Laws

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Background and Introduction

Definition of Prevailing Wage Laws

The federal Davis-Bacon Act and the state prevailing wage standards require construction contractors working on government funded projects to pay their employees wages no less than the average wage paid in their occupation by private contractors in the locality. The first prevailing wage statute was passed by the state of Kansas in 1891. Laws applying to federally funded contracts were passed in 1931 under the Davis-Bacon Act. In the following years, several states passed their own laws paralleling the Davis-Bacon Act. Currently, California law mandates that prevailing wages be to be paid to any employee working on government projects with a value of \$1,000 or more. San Diego has passed an ordinance approved by the court to free the city from having to pay prevailing wage on local construction projects.

Prevailing wage laws were enacted to maintain community wage standards, support local economic stability and to protect the taxpayers from sub-standard labor on state and federal projects. Prior to the introduction of this law, out-of-state contractors could hire itinerant laborers at low wages to win federal contracts by bidding lower than local companies could afford. The intent of prevailing wage laws were to set clear parameters to ensure contractors bid on public projects on the basis of skill and efficiency, and protect wage levels under the competitive bidding system.

For the past few decades, these laws have been under scrutiny for several reasons, including fraudulent wage reporting to artificially inflate set prevailing wage rates, the purported unfairness to small businesses, and the claim of bias toward unionized companies. Indeed, some states and cities have repealed their local prevailing wage laws, with conflicting reports stating the benefits and losses. Assuredly, the debate is ongoing, with opposition on both sides.

Arguments in Support of Prevailing Wage Laws

- ◆ Prevailing Wage Laws establish a consistent wage package for construction workers on publicly funded construction projects, therefore every employer can compete successfully because all of the contractors that are bidding that project have to pay the same wage package.
- ◆ Payment of prevailing wages often reduces costs because of the increase in productivity, the decrease in job site injuries, and savings derived from significant reductions in future maintenance because of the higher quality of the original construction.
- ◆ Where prevailing wages are paid, training programs are more prevalent, including higher participation by minorities and disadvantaged workers. While opponents claim that the existing prevailing wage laws are discriminatory, several reports find no basis for this argument. In addition to providing opportunity for low-skilled workers, apprenticeship programs satisfy the demand for new skilled workers in the construction industry.
- ◆ The failure to pay prevailing wages and benefits creates a direct cost to taxpayers because it shifts the cost of health care and pensions from employers to public health systems.
- ◆ The failure to pay prevailing wages often increase construction costs, reduces tax revenues, lowers the general economy and forces skilled workers to migrate to other areas, further reducing local tax bases.
- ◆ Several studies across the United States show that prevailing wage laws have little significance on the total construction costs in private versus public construction in states that both do and do not have prevailing wage laws. Several different research groups have reached this conclusion independently.
- ◆ Though critics claim that repeal will bolster state and federal budgets, in several states where prevailing wage laws were repealed in the 1980's, state budgets and taxpayers did not benefit.

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Cockshaw's Construction Labor News and Opinion - Staff Writer

Support #1

Author(s): Prus, Mark
Department of Economics SUNY

Title: **The Effect of State Prevailing Wage Laws on Total Construction Costs**

Source: *Journal of Education Finance*; Jan 1996

Abstract: Claims of cost savings through the repeal of prevailing wage laws are generally based solely on analysis of effect of higher wages, yet this author's research tends to show that wages themselves have a relatively moderate effect on total construction costs of public buildings. He ascertains that the fault in the argument for elimination of prevailing wage lies in the implicit assumption that the amount of time and number of working hours for a project would be the same whether the job is paid on a prevailing wage basis or not. In his view, prevailing wage employees are more productive, and therefore do not burden the total cost of the project as argued. The results of his multivariate analysis show no measurable cost difference between similar structures as a result of prevailing wage requirements.

Support #2

Author(s): Davidson, Carlos
Center for Labor Research and Education Institute of Industrial Relations
University of California at Berkeley

Title: **A Case Study of the USS-POSCO Modernization**

Source: *Report to the Contra Costa County Board of Supervisors*; February, 1990

Abstract: The study examines the socio-economic impacts of the use of out-of-area workers in non-residential construction in Contra Costa County through a case study of the USS-POSCO modernization. This study parallels the concepts of the Davis-Bacon Act. The author finds that employees paying prevailing wage can easily attract skilled local workers and by hiring local firms, save on construction costs and turnover costs. If firms are required to pay prevailing wage, they have good incentive to hire locally. In all, a fair handed, detailed study.

Support #3

Author(s): Phillips, Peter, Ph.D.
University of Utah

Title: **A Comparison of Public School Construction Costs In Three Midwestern States That Have Changed Their Prevailing Wage Laws in the 1990s**

Source: *University of Utah Publications* - February, 2001

Abstract: A study of public school construction costs in Kentucky, Ohio and Michigan over the period 1991-2000, found that the use of prevailing wages raised school construction costs by less than 1%, a statistically insignificant result. Instead of raising costs, the study found that the payment of prevailing wages and benefits forces contractors to hire and train a more skilled and productive labor force. The failure to pay living wages reduces wages, training and health and pension benefits. As a result trained workers migrate to other areas and young less trained workers have an injury rate 15% higher than trained workers.

Support #4

Author(s): Belman, Dale; Voos, Paula B.
U Wisconsin; U Wisconsin;

Title:	Prevailing Wage Laws in Construction: The Costs of Repeal to Wisconsin
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Source: *Institute for Wisconsin's Future* – October 1995

Abstract: The Davis-Bacon Act was established to protect local wage levels on publicly-funded construction projects, though critics claim that repeal will bolster state and federal budgets. However, in the nine states in which prevailing wage laws were repealed in the 1980's, state budgets and taxpayers did not benefit. As a result of this study the decrease in wages due to repeal could result in a major tax loss for the state of Wisconsin as the decline in state income and sales tax revenues would exceed the minimal savings in construction costs derived from decreasing worker wages. In states that have repealed prevailing wage laws, occupational injuries have increased. When contractors are forced to reduce labor costs, workers are often pressured to speed up and take more chances. Use of high wages often leads to higher skilled employees and better efficiency, particularly in complex projects where productivity and skill is important. The authors also iterate the importance of the Apprenticeship Training System, which is often an entryway for minorities into the construction field, and which is all but eliminated at the repeal of prevailing wage laws. In the author's view prevailing wage statutes make economic sense and ensures that the competitive bidding process is not used to undermine community wage levels and living standards.

Support #5

Author(s): Bilginsoy, Cihan; Philips, Peter
U UT; U UT

Title:	Prevailing Wage Regulations and School Construction Costs: Evidence from British Columbia
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Source: *Journal of Education Finance* - Winter 2000 V24 pg: 415-432

Abstract: The authors affirm that the original purpose of the prevailing wage law is to encourage collective bargaining in construction and to discourage the payment on public works of wages below those prevailing locally. Critics of prevailing wage laws assert that these laws raise public construction costs and discourage non-union workers from bidding on public works. This paper attempts to inform the ongoing debate in the United States by using a unique dataset from Canada through a “before and after” comparison of construction costs with relation to the implementation of mandated prevailing wage laws. Through analysis of this data, a distinct price increase of 16% can be seen, however, after rerunning the experiment and controlling for a number of legitimate factors, this price differential disappears. As a final statement, the authors find that two factors play an extremely important role in the construction costs: Competition, and Trend Change.

Support #6

Author(s): Philips, Peter
U UT

Title:	Square Foot Construction Costs for Newly Constructed State and Local Schools, Offices, and Warehouses in Nine Southwestern and Intermountain States 1992-1994
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Source: *Legislative Education Study Committee of the New Mexico State Legislature* – September 6, 1996

Abstract: This study compares public square foot construction costs in five southwestern and intermountain states that have state prevailing wage laws with four states in the same region that do not have state prevailing wage laws. The five “have-law” states are New Mexico, Texas, Oklahoma, Wyoming, and Nevada. The four “no-law” states are Arizona, Utah, Idaho, and Colorado. The report finds that construction costs are sensitive to regional differences in cost of living as well as prevailing wage law regulations, building design and other factors. An aggressive conclusion from these data would be that prevailing wage laws promote collective bargaining and apprenticeship training and consequently lower construction costs. A more conservative conclusion from these data notices that these cost differences found do not provide support for the proposition that the elimination of prevailing wage laws saved on public construction costs.

Support #7

Author(s): Prus, Mark
SUNY Cortland

Title: **Prevailing Wage Laws and School Construction Costs: An Analysis of Public School Construction In Maryland and the Mid Atlantic States**

Source: *A Report to the Prince George County Council*, Maryland January 1999

Abstract: A study for the Prince George County's County City Council in Maryland compared school construction in three mid-Atlantic states (Delaware, Pennsylvania and West Virginia) with prevailing wages between 1991-1997 with two states (North Carolina and Virginia) that did not pay prevailing wages. The study found that the slight increase in costs for states with prevailing wages was statistically insignificant. Further, future savings in maintenance costs because of higher quality construction produced additional savings for the states.

Support #8

Author(s): Fischer, Peter S.; Sheehan, Michael F.

Title: **Economic Impacts of a Prevailing Wage Law for Iowa State Construction Projects**

Source: *Iowa State Building and Construction Trades Council* ; Feb 1985

Abstract: The paper presents the argument for prevailing wage legislation in Iowa. By reviewing construction data for Federal Highway Contracts, the study finds no significant difference in total construction costs when prevailing wages are applied. The study states that construction firms that bid and win federal contracts are not passing the labor cost savings onto the state. Instead, the authors contend that the non-union contractors bid slightly under unionized firms, and when they win a contract, pay wages at about half of prevailing wage scale. A prevailing wage law would produce higher incomes for middle class construction families, with only a minor portion of this increase passed onto the state in the form of higher contract costs.

Support #9

Author(s): Philips, Peter
U UT;

Title:	Kentucky's Prevailing Wage Law: Its History, Purpose and Effect
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Source: *Report to the Kentucky State Legislature* – October 1999

Abstract: This study covers the history of prevailing wage in the United States, and in particular its effects on the state of Kentucky. The paper also answers the belief, by some, that the Davis-Bacon Act, which initiated prevailing wage laws, unfairly excludes minorities from the workplace. The argument is that by mandating a higher wage, contractors give preference to skilled workers, more often white, than minority workers. Philips answers that his econometric analysis of the relationship between prevailing wage regulations and the presence of blacks in construction fails to find support for this claim. The report also covers the prevailing wage law effect on construction costs in the state, which finds that in most projects, labor is only 30% of the construction cost. The author does find that the real costs (inflation adjusted) of school construction did rise in the 1990's (prior to prevailing wage reinstatement), though he does not find a statistically significant relationship between prevailing wage and the rise in costs. Intangible aspects to the use of prevailing wage, such as apprenticeship training, job site injuries, health coverage, and retirement are also discussed. The author maintains that there are significant benefits to the state, such as maintaining a skilled workforce, prevention of labor shortages, safer workplaces, higher quality end products, lower maintenance costs, less reliance of uncovered workers on state funded healthcare, and the ability of the workers to retire using their own pension funds.

Support #10

Author(s): Philips, Peter
U UT

Title: **Kansas and Prevailing Wage Legislation**

Source: *Report to the Kansas Senate Labor and Industries Committee* –
February 20, 1998

Abstract: This study covers the history of prevailing wage in the United States, and in particular its effects on the state of Kansas, which was the first state in the country to enact prevailing wage law. It follows the same outline as the report for the state of Kentucky by the same author. The paper considers the impacts of the prevailing wage laws in 15 great plain states, and a comparison shows that after Kansas repealed its prevailing wage law in 1987 wage incomes in construction fell, pension and health benefits were cut, apprenticeship programs dropped drastically, serious injury rates rose, and most importantly, the projected savings to the state budget failed to materialize. All the while, construction costs remained virtually identical between Great Plains states with and without prevailing wage laws.

Support #11

Author(s): Azari-Rad, Hamid; Yeagle, Anne; Philips, Peter
U UT; U UT; U UT

Title:	The Effects of the Repeal of Utah's Prevailing Wage Law on the Labor Market in Construction
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Source: *Restoring the promise of American labor law* - (1994): 207-22

Abstract: This is a case study of the effect of the repeal of prevailing wage law in Utah. It was found that the Utah appeal accelerated the decline in the Union share of the state's construction wages in the state, and decreased union apprenticeship training for construction. This can be seen through the decline in the average age of the workers before and after the repeal of the prevailing wage law. In addition, the paper demonstrates the union's ability to effectively buffer the ups and downs of the construction market, provide benefits to employees, and reduce turnover. With the elimination of the prevailing wage laws, most unionized contractors loose out, causing older workers to pursue other fields, and discourage younger employees from a career in construction. The bottom line to the authors is that both industry and society as a whole pay a price for the loss of middle class occupations in construction.

Support #12

Author(s): Azari-Rad, Hamid; Philips, Peter; Prus, Mark

Title: **Making Hay when it Rains: The Effect Prevailing Wage Regulations, Scale Economies, Seasonal, Cyclic and Local Business Patterns have on School Construction Costs**

Source: *Journal of Education Finance*; V27 Spring 2002

Abstract: As the construction industry has its ups and downs, rates for building fluctuate as well. An analysis of school construction across the US yields that school districts choosing to start several projects simultaneously may want to pay heed to the condition of the market to avoid higher bid prices. Furthermore, a comparison of private versus public school construction costs in states that both do and do not have prevailing wage laws yields no considerable difference in overall construction costs. More importantly, districts that formulate and follow planned construction phases, pay attention to seasonal costs, and properly gage the economic conditions are more likely to reduce construction costs.

Support #13

Author(s): Phillips, Peter, Ph.D.
University of Utah

Title: **Losing Ground: Lessons from the Repeal of Nine 'Little Davis-Bacon' Acts**

Source: *University of Utah Publications* - February, 1995

Abstract: A major study of nine states (Alabama, Arizona, Colorado, Florida, Idaho, Kansas, Louisiana, New Hampshire, and Utah) that had repealed prevailing wages found that the repeals had negative impacts on all state budgets. The loss of construction earnings and sales tax revenues had an adverse impact, and cost overruns on road construction also increased costs. In Utah, for example, these cost overruns tripled after the repeal. Training was reduced by 40%, minority representation was reduced in training programs and injuries increased by 15%. The study concluded that if the federal Davis-Bacon Act was repealed that federal tax revenues would drop by \$1 billion per year, and that there would be 76,000 additional workplace injuries in construction annually, with more than 675,000 work days lost each year. These increases would be felt in increased workers compensation costs and costs placed on public health systems by workers without health and pension benefits.

Support #14

Author(s): Hirsch, Werner Z.; Rofolo, Anthony M.

Title:	Effects of Prevailing Wage Laws on Municipal Government Wages
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Source: *Journal of Urban Economics*; January, 1983 V13 Issue 1 pg. 112-26

Abstract: The authors set out to answer the question whether prevailing wage laws have a significant impact on municipal wages. In spite of common claims that prevailing wage laws lead to disproportionately high wage increases, the 10-year study the authors conducted from 1969-1979 shows that wages in Los Angeles County found no statistically significant effect on the relative wages. In all, the study covered 25 large US cities from 1978-1979, and 39 cities from 1970-1973.

Support #15

Author(s): Petersen, Jeffrey S.

Title: **The Role of Prevailing Wage Laws Health Care and Pension Benefits for Construction Workers**

Source: *Industrial Relations*; Volume 39 Issue 2 Page 246 - April 2000

Abstract: This article examines the affect of state prevailing wage laws (PWLs) on the amount and mix of wages and benefits paid to construction workers. PWLs require contractors who win bids on state-financed construction projects to pay compensation rates equivalent to those prevailing in local construction markets. During 1982-1992, 6 states repealed their PWLs, 9 states who never had a PWL did not enact one, and 32 states kept their PWLs. Data from the Form 5500 series, the Census of Construction Industries, the Current Employment Statistics, and the Current Population Survey are combined to evaluate the effects of PWL repeals on compensation. When comparing the experiences of different states, PWLs enhance both wages and benefits, with the largest percentage increase going toward employer pension contributions. PWLs appear to create an incentive for both employers to pay and workers to accept a larger percentage of their total compensation in the form of benefits.

Support #16

Author(s): Gasperow, Bob

Title: **Do Higher Wages Raise Labor Costs?**

Source: *Construction Labor Research Council, Federal Highway Administration Reported*, May, 2001

Abstract: A 14-year study of highway construction in the United States from 1980-1993, found that skills and productivity, not differences in wage rates, are the critical determiner of bottom line labor costs. The federal study found that the payment of prevailing wages and the use of higher paid, higher skilled workers reaped an average of \$123,057 per mile in savings. The study found that "There is no basis to the claim that lower wage rates result in lower construction costs."

Support #17

Author(s): Nobis, Brian W.

Title: **Offering Fringe Benefits to Employers can Increase a Contractor's Bottom Line**

Source: *American City Business Journal*, April 14, 1997

Abstract: Brian Nobis writes that in lieu of paying an employee the difference between their salary and that mandated by prevailing wage in "take home pay" the contractor can save money and increase their bottom line while paying prevailing wage through offering a "cafeteria" or "flexible benefit" plan where the employee makes a pre-tax contribution to the benefit plan of her or his choice. By doing this, the contractor not only reduces the amount of payroll taxes to be paid, but also gives the employee the flexibility to balance the coverage of benefits with amount of pay. In this, the contractor may satisfy the prevailing wage requirements and satisfy the needs of the employees.

Support #18

Author(s): Balgenorth, Robert L.

Title: **It Isn't Broken, So Don't Fix It**

Source: *ENR*; New York; March 10, 1997

Abstract: Payment of the prevailing wage to construction workers on public works jobs is the best guarantee that skilled crews will build dams, roads, bridges, schools jails, prisons and many other built-to-last public works. Without prevailing wages, public works bids often are won by the contractor willing to make the deepest wage cuts.

Support #19

Author(s): Fehr, Ernst; Falk, Armin

Title: **Wage Rigidity in a Competitive Incomplete Contract Market**

Source: *The Journal of Political Economy*; Chicago; Feb 1999

Abstract: Do employers and workers overbid prevailing wages if there is unemployment? Do employers take advantage of workers' underbidding by lowering wages? It is hypothesized that under conditions of incomplete labor contracts, wage levels may positively affect workers' propensity to cooperate. This, in turn, may prevent firms from underbidding or accepting the underbidding of workers. Experimental double auctions conducted for the purpose of examining these hypotheses yield the following results: 1. Workers' underbidding is very frequent, but employers refuse to accept workers' low wage offers in markets with incomplete labor contracts. However, in the presence of complete labor contracts, employers accept and actively enforce wages close to the competitive level. 2. Workers' effort is positively related to the wage level. Therefore, wage cutting is costly for the employer if workers have discretion over their effort level. This holds true even in the presence of explicit performance incentives.

Support #20

Author(s): Hesse, Katherine A; MacKenzie-Ehrens, Doris R;

Title:	Preemption--California Prevailing Wage Law not Preempted
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Source: *Benefits Quarterly* - Brookfield; First Quarter 1998 V14 Issue 1 pg 66

Abstract: In *California Division of Labor Standards Enforcement v. Dillingham Construction, N.A., Inc.*, the US Supreme Court ruled that California's prevailing wage law, which requires payment of prevailing wages to employees in apprenticeship programs without state approval and permits lower wages to employees in state-approved apprenticeship programs, is not preempted by ERISA. California's prevailing wage law and apprenticeship standards do not have a "connection with," and, therefore, do not "relate to," ERISA plans and, therefore, the California law can prohibit contractors that operate an unapproved program from paying apprentices lower wages. While this article neither supports nor argues against prevailing wage laws, this decision does fall to the benefit of the workers. Prevailing wages are often seen as protecting workers rights, so it is presented here.

Support #21

Author(s): Azari-Rad, Hamid ; Philips, Peter
SUNY, New Paltz; U UT

Title: **Race and Prevailing Wage Laws in the Construction Industry: Comment on Thieblot**

Source: *Journal of Labor Research* V24, n1 (Winter 2003): 161-68

Abstract: A comment is presented on Thieblot's "Prevailing Wage Laws and Black Employment in the Construction Industry" (1999). Using the 1990 Census of Population, Thieblot (1999) argued that black employment and the strength of the prevailing wage laws are correlated and that repeal of these laws would lead to higher black employment in construction. Analysis of the 1970 Census of Population reveals that the relative abundance of black construction workers in the group of states that eventually would repeal their laws preceded those repeals and that this is mainly due to the characteristics of Southern labor markets. This and other research cast doubt on both the strength and the existence of such a correlation.

Support #22

Author(s): Anonymous

Title: **Prevailing Wage Reform Derailed in California**

Source: *ENR*; New York; May 19, 1997

Abstract: Score one for unions in the struggle over prevailing wages in California. Just as the state was about to begin new surveys aimed at cutting rates, the California Court of Appeal in San Francisco ruled that Gov. Pete Wilson (R) lacked authority to spend the funds to carry it out. Wilson had planned to switch to a weighted average rather than using the most frequently occurring wage. State officials had anticipated saving hundreds of millions of dollars on public works because they believed the new method would produce much lower wages, but building trades unions sued to stop the plan.

Support #23

Author(s): Staff Writer

Title:	Davis-Bacon Works! Prevailing Wage Laws are Good for America
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Source: *Building and Construction Trades Department AFL-CIO*; February 1996

Abstract: The publishers of this article draw on several different studies conducted throughout the United States and present several points in support of the Davis-Bacon act. Prevailing wage laws have a positive impact on local economies, they are not found to raise construction costs, unions do not necessarily have the upper hand in bidding for these jobs, it protects the benefits of workers, increases minority employment through apprenticeship training, and results in a safer workplace. The article points to several government projects that used prevailing wage with great success: The rebuilding of the Santa Monica Freeway following the Northridge Earthquake and the search and rescue following the Oklahoma City bombing. Davis-Bacon is fair to Americans and an important part of a healthy economy.

Support #24

Author(s): Staff Writer

Title: **What Would Happen if Davis-Bacon was Repealed?**

Source: *Building and Construction Trades Department AFL-CIO;*

Abstract: This relatively short paper summarizes the main points and findings of studies carried out by economists at the University of Utah. These studies show that the effect of the repeal of the Davis-Bacon Act would be a loss of federal income tax collected, site-related injuries would increase and the likelihood of cost overruns would increase. Although brief, it does follow the actual study well, and it is recommended that if the reader desires more information after perusing this article, read the study Support #13.

Support #25

Author(s): Staff Writer

Title: **Will Davis-Bacon Repeal Save Money?**

Source: *Cockshaw's Construction Labor News and Opinion*; V24 No.5 May 1995

Abstract: The article questions the validity of studies claiming that repeal of Davis-Bacon will save the federal government several billions of dollars. A review of one such study conducted by the Congressional Budget Office in 1983 is claimed to have several flaws, which the CBO concedes are present. A detailed analysis by Robert Gasperow (Director of the Construction Labor Research Council) finds that these flaws may negate any savings associated with repeal. In conclusion, the authors contend that the possibility of amendment or reform may be the best course of action.